



# House of Representatives

General Assembly

**File No. 415**

January Session, 2011

Substitute House Bill No. 6584

*House of Representatives, April 6, 2011*

The Committee on Commerce reported through REP. BERGER of the 73rd Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

## **AN ACT ESTABLISHING A MANUFACTURING REINVESTMENT ACCOUNT.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1       Section 1. (NEW) (*Effective July 1, 2011, and applicable to income years*  
2       *commencing on or after January 1, 2011*) (a) For the purposes of this  
3       section, (1) "manufacturing reinvestment account" means a trust  
4       created or organized by a manufacturer and held by a Connecticut  
5       bank for the benefit of such manufacturer, to which the manufacturer  
6       may make cash contributions not to exceed the amount set forth in  
7       subsection (b) of this section for any income year. Moneys in a  
8       manufacturing reinvestment account shall not be invested in life  
9       insurance contracts or comingled with other property, and (2)  
10      "manufacturer" means any corporation subject to tax pursuant to  
11      chapter 208 of the general statutes that is engaged in the business of  
12      manufacturing as defined in subdivision (72) of section 12-81 of the  
13      general statutes.

14      (b) Any manufacturer may establish a manufacturing reinvestment

15 account, provided (1) contributions in any income year shall not  
16 exceed the lesser of (A) two hundred fifty thousand dollars, or (B) such  
17 manufacturer's domestic gross receipts, (2) moneys may be held in  
18 such account for not more than five years, (3) distributions from such  
19 account shall be used by such manufacturer to purchase machinery,  
20 equipment or manufacturing facilities, as defined in said subdivision  
21 (72) of section 12-81, or for workforce training and development, and  
22 (4) disbursements shall be subject to tax under chapter 208 of the  
23 general statutes at a rate of three and one-half per cent.

24 (c) Any money remaining in a manufacturer's reinvestment account  
25 at the end of the five-year period shall be returned to the manufacturer  
26 who shall pay the full rate of tax on such amount under chapter 208 of  
27 the general statutes, provided such payment shall be deemed to be a  
28 timely payment if such tax is remitted to the Commissioner of Revenue  
29 Services not later than sixty days after the date of such return.

30 Sec. 2. Subdivision (1) of subsection (a) of section 12-217 of the  
31 general statutes is repealed and the following is substituted in lieu  
32 thereof (*Effective July 1, 2011, and applicable to income years commencing*  
33 *on and after January 1, 2012*):

34 (a) (1) In arriving at net income as defined in section 12-213, whether  
35 or not the taxpayer is taxable under the federal corporation net income  
36 tax, there shall be deducted from gross income, (A) all items deductible  
37 under the Internal Revenue Code effective and in force on the last day  
38 of the income year except (i) any taxes imposed under the provisions  
39 of this chapter which are paid or accrued in the income year and in the  
40 income year commencing January 1, 1989, and thereafter, any taxes in  
41 any state of the United States or any political subdivision of such state,  
42 or the District of Columbia, imposed on or measured by the income or  
43 profits of a corporation which are paid or accrued in the income year,  
44 (ii) deductions for depreciation, which shall be allowed as provided in  
45 subsection (b) of this section, (iii) deductions for qualified domestic  
46 production activities income, as provided in Section 199 of the Internal  
47 Revenue Code, and (iv) in the case of any captive real estate

48 investment trust, the deduction for dividends paid provided under  
49 Section 857(b)(2) of the Internal Revenue Code, and (B) additionally, in  
50 the case of a regulated investment company, the sum of (i) the exempt-  
51 interest dividends, as defined in the Internal Revenue Code, and (ii)  
52 expenses, bond premium, and interest related to tax-exempt income  
53 that are disallowed as deductions under the Internal Revenue Code,  
54 and (C) in the case of a taxpayer maintaining an international banking  
55 facility as defined in the laws of the United States or the regulations of  
56 the Board of Governors of the Federal Reserve System, as either may  
57 be amended from time to time, the gross income attributable to the  
58 international banking facility, provided, no expense or loss attributable  
59 to the international banking facility shall be a deduction under any  
60 provision of this section, and (D) additionally, in the case of all  
61 taxpayers, all dividends as defined in the Internal Revenue Code  
62 effective and in force on the last day of the income year not otherwise  
63 deducted from gross income, including dividends received from a  
64 DISC or former DISC as defined in Section 992 of the Internal Revenue  
65 Code and dividends deemed to have been distributed by a DISC or  
66 former DISC as provided in Section 995 of said Internal Revenue Code,  
67 other than thirty per cent of dividends received from a domestic  
68 corporation in which the taxpayer owns less than twenty per cent of  
69 the total voting power and value of the stock of such corporation, and  
70 (E) additionally, in the case of all taxpayers, the value of any capital  
71 gain realized from the sale of any land, or interest in land, to the state,  
72 any political subdivision of the state, or to any nonprofit land  
73 conservation organization where such land is to be permanently  
74 preserved as protected open space or to a water company, as defined  
75 in section 25-32a, where such land is to be permanently preserved as  
76 protected open space or as Class I or Class II water company land, and  
77 (F) in the case of manufacturers, the amount of any contribution to a  
78 manufacturing reinvestment account established pursuant to section 1  
79 of this act in the taxable year that such contribution is made.

80 Sec. 3. Subsection (a) of section 36a-250 of the general statutes is  
81 amended by adding subdivision (42) as follows (*Effective July 1, 2011*):

82 (NEW) (42) Act as trustee or custodian of a manufacturing  
 83 reinvestment account established pursuant to section 1 of this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2011, and applicable to income years commencing on or after January 1, 2011</i>	New section
Sec. 2	<i>July 1, 2011, and applicable to income years commencing on and after January 1, 2012</i>	12-217(a)(1)
Sec. 3	<i>July 1, 2011</i>	36a-250(a)

**Statement of Legislative Commissioners:**

In section 1, the definition of "manufacturer" was added for clarity, the reference in subsection (a) to "two hundred thousand dollars" was changed to "the amount set forth in subsection (b) of this section" for accuracy, and the reference in subsection (a) to "the Department of Economic and Community Development" was changed to "manufacturer" for internal consistency and to represent the committee's intent.

**CE**      *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

### **OFA Fiscal Note**

#### **State Impact:**

<b>Agency Affected</b>	<b>Fund-Effect</b>	<b>FY 12 \$</b>	<b>FY 13 \$</b>
Department of Revenue Services	GF - Revenue Loss	6.7 million	10.3 million
Department of Revenue Services	GF - Cost	17,000	None

Note: GF=General Fund

**Municipal Impact:** None

#### **Explanation**

The bill, which establishes a trust account that allows manufacturers to defer and reduce corporation business taxes due on funds utilized for certain enumerated purposes, results in an estimated revenue loss of \$6.7 million in FY 12 and \$10.3 million annually thereafter.

The revenue loss is based on approximately 360 manufacturers establishing accounts in FY 12 and making annual withdrawals beginning in FY 13. The initial revenue loss is due to the deduction of up to \$250,000 from corporation income for tax purposes. The annualized revenue estimate accounts for losses due to 1) initial deductions from corporate income for tax purposes, and 2) the 3.5% reduced rate of taxation on withdrawals. All figures assume that only manufacturers filing corporation business taxes under the Net Income Base method would be eligible for the program.

The bill also results in an estimated one-time cost of approximately \$17,000 to the Department of Revenue Services (DRS) in FY 12 associated with modifications to corporate tax forms and to the Taxpayer Service Center.

#### **The Out Years**

The annualized ongoing fiscal impact identified above would continue into the future.

*Sources: Department of Revenue Services NAICS 31-33 Manufacturing Statistics*

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**OLR Bill Analysis****sHB 6584*****AN ACT ESTABLISHING A MANUFACTURING REINVESTMENT ACCOUNT.*****SUMMARY:**

This bill allows manufacturers to defer corporation business taxes on money they save for training their workers or purchasing machinery, equipment, or facilities. It does so by allowing them to establish a trust account in a Connecticut bank into which they can deposit up to \$250,000 annually or 100% of their domestic gross receipts whichever is less, on a corporation tax-deferred basis for up to five years, if they use the funds for these purposes.

The manufacturer may deduct the deposits from its corporation businesses taxes until it withdraws the money. It must pay taxes on each withdrawal, but at a reduced rate of 3.5%. Any balance remaining after five years is taxed at the full rate (currently 7.5%, plus 10% surcharge). Under the bill, the bank must return the balance to the manufacturer, which then has up to 60 days to pay the taxes on this amount.

EFFECTIVE DATE: July 1, 2011, with the provisions authorizing manufacturers to establish the account and deduct contributions to it from the corporation business tax applying to income years beginning on or after January 1, 2011.

**ELIGIBLE BUSINESSES**

Manufacturers may establish a manufacturing reinvestment account. Manufacturing includes any activity changing the form, composition, quality, or character of tangible personal property for retail sale or for making a product for such sale.

**MANUFACTURING REINVESTMENT ACCOUNT**

A manufacturer may establish an account only in a Connecticut bank, which can act as the account's trustee or custodian. Neither the bank nor the manufacturer can invest the money in the account in life insurance contracts or comingle it with other property. The bank must close the account five years after the manufacturer established it and return the balance to the manufacturer.

**ELIGIBLE EXPENDITURES**

A manufacturer may withdraw funds from the account to train its workers or purchase machinery, equipment, or manufacturing facilities. Machinery includes the basic machine and its component parts plus equipment and devices used or needed to control, regulate, or operate it. Equipment includes separate devices needed to manufacture, process, or fabricate things.

**COMMITTEE ACTION**

Commerce Committee

Joint Favorable Substitute

Yea 18 Nay 1 (03/22/2011)